A CONVERSATION with ANTHONY DEDEN

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One of the unique benefits of being a part of our community is the ability to participate in live discussions with renowned investors, like the one you're about to hear. While the public only receives the recording or transcript, our members and subscribers can engage in real-time, asking questions, and contributing to the conversation.

In the following interview between Ian Cassel, founder of MicroCapClub, and Anthony Deden, you'll gain invaluable insights into investing philosophies, decision-making processes, and strategies used by Deden.

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Who is Anthony Deden?

Anthony Deden is the Chairman of Edelweiss Holdings, a Bermuda-based investment holding company with over $300 million in assets. Originally launched as a fund in 2002, Edelweiss transitioned into a holding company focused on capital preservation and safety above all else. Having accidentally entered wealth management in 1985, Anthony learned the trade on the job, prioritizing client wealth protection over risky ventures.

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Ian Cassel:

When you were an individual investor in your 20s and 30s, you built your early wealth like I did it, through concentration, buying one or two things and getting to know those one or two things really well. I'm curious what you learned from those early years of concentrating on one or two things?

Anthony Deden:

For many years I would make one investment with everything I had. That would be sometimes for a month or two, sometimes for a year or so. And then when I sold it, the money was in the bank sometimes for months. I think it's easy to say, but it's hard to do, but you need a sense of conviction that's completely different from the type of conviction most people have. It's the same thing as if you were buying an entire company. However, you're a minority shareholder, you have partial information, you never have all the information you need to have.

So back in those days, I fiddled a lot with the idea of what people would call a substantially mispriced asset. We're talking about the early 1980s now. They were very different times. Earnings per share meant earnings per share. We didn't have EBITDA, we didn't have adjusted EBITDA, and we didn't have a culture of speculation. Surely, there was speculation around, but it was not anything like we see today.

The trick in life, generally speaking, is knowing what not to do, knowing what not to read, knowing what advice not to take. Because if you can do that, you have eliminated a very large subset of what you ought to be looking at, et cetera. So that's how I started. I started by exclusion, and I still believe that very strongly.

Ian Cassel:

I think your maturation as an investor is similar to many where they start their investment journey looking for cheap things, and they end their careers looking for quality things. Can you talk a bit about this and your maturation as an investor?

Anthony Deden:

I don't think there are any formulas, because a cheap thing is not necessarily valuable. It's a very big subject. I'm not sure where to start. I didn't say cheap, I said mispriced. It's a big difference. Generally, cheap things are cheap because they're not worth very much. But occasionally, the market errs. There have been many, many such situations in the past. The most extraordinary for me was in 1999 when the price of oil went down

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to $10 a barrel, and there were brokers' reports that it was going to go to $5. So you ask yourself, "Well, if that does happen, who's going to remain standing?"

And so you find out with some basic arithmetic that when the price of oil is at $10, you can find oil in the ground as reserves for less than $1. But that very company that has these reserves could borrow money, could go out of business, could mismanage its affairs, could do all kinds of things to destroy that value. Others, maybe not. So you start asking yourself questions. How have people behaved over the last 10 years? That's a very good sign of how they're likely to behave in a difficult time. Many people went out of business, but those who did not prospered enormously in the succeeding 5, 10 years, enormously. This was a case where the underlying commodity, was mispriced. There have been many such occasions over time because people tend to overdo things. They think that something that is going down is likely to go down more and vice versa.

Today, the word value is being not as clear among investment people. You have to define it to start with, and people have used many ways to define it. But in essence, value is really subjective. What's valuable to me is not necessarily valuable to you. It has nothing to do with price. It's a subject that is just not suited to a few words, but you ought to start with the journey is if you were buying a private company. Do you know something about this business? I don't care how cheap it is. If you don't know anything about this business, you don't know what can go wrong. Forget the financial accounts. Do you know the business?

And if you do know the business, ask yourself, do I like this business? Do I want to be in this business? And many times you don't. I understand the trucking business, but I don't want to be in it. I understand how airlines work, I understand the economics of airlines, but I don't want to be in that business. So I don't care how cheap an airline is. You can offer me United Airlines for a dollar a share. I'm not interested.

So if you understand the business and you like the business, you have a starting point. And then you have to ask yourself, is this suitable for me? Is this something, if I could, would I own the entire thing? If it isn't, for me, there's no point speculating in it.

But the actual third question you have to ask nowadays, is do the people who run the business are owners and do their objectives match mine? Because if the guy who runs the business is a renter or he has gotten his shares through options, and he has a ten-year time window to get out enriching himself, that's not something that I want to be involved in. And you can tell a lot about these people without even meeting them by looking at decisions they've made in the past. Oftentimes, the decisions they've made in

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the past reveal a great deal about their objectives and their characters, et cetera.

Further than that, I think you have to ask yourself what can go wrong? We are all accustomed to hearing stories, particularly nowadays because of social media. This is a great story because this and that and the other, but stories do not make a good investment.

Somebody said it takes a lot of work to go from zero to a million dollars, but going from a million to $2 million is a matter of time. It is not as difficult, right? So a person who is wealthy, and I don't want to define that, because wealth means different things for different people, needs to think differently about what is appropriate and suitable for him. So, the price is the last thing that you look at and the financial accounts are the last thing you look at. You call them financial statements, so I'm going to call them financial statements for the purpose of this call.

When you go in to buy, say, a business, a restaurant, you're not going to ask them for their financial statements. That's the last thing in the world you want. You want to find out who are the customers? Why do they go there? What kind of food they make, what competition there is around the place? How long they've been around? What's their employee turnover? There are a million questions you have to ask.

And once you're satisfied that you have a genuinely valuable business, then you start thinking about what it is that you can do over the next year or two or three or four. You ask about suppliers, you ask about ... There are just too many things to consider. At the end, "Okay, show me your financial statements, so your accounts, your tax statements or whatever it is." And then what you're looking for liabilities and things like that. You come to an understanding of whether that's valuable to you. There's no market price, there's no stock exchange to tell you.

The fact is that the stock exchange is composed of a price that is based on people's anticipations. And so by competing in that, by participating in the market, you are in essence anticipating other people's anticipations. You're trying to buy something at a price and so it will go higher so you can sell it and find something else. This is not a game that I play.

What can go wrong? What are the unwanted risks that I want to avoid that are particularly pertinent to this business? Sometimes, there are significant issues related to business that are invisible. They're not part of the financial accounts. You're looking at December 31 statements, and it's July or August, but between then and now, somebody at the company has been making decisions that will have an impact five years from now that that you have no clue.

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And then the important thing is in looking at value, you must focus mostly from an economic point of view. Remember that accounting was never meant to be a tool for valuation. This just happened in the 20th century. Accounting was just a method for business managers to be accountable to their owners. It was never meant to be a valuation tool.

Because ultimately then in the public markets, everyone looking for a higher price of the securities, it's only normal that the people who manage the company do whatever is necessary to get the price up. Hardly anybody's interested what is the impact if the companies can be around in 20 years? With respect to motivation. So there are many risks, but at the same time, there are also many positive variables that are never really seen. They are invisible. There are unquantifiable, but one needs to understand them, because the last thing he wants to have is a surprise.

There are a lot more elements that go into the picture of trying to figure out whether it's suitable and appropriate for me. Yes, a number makes sense. You can do a DCF analysis, and you can be happy, but by changing one variable a little tiny bit, you can come up with an entirely different scenario. And a DCF analysis does not capture all that there is that needs to be captured. It captures a very, very little elemental part of one's approach to how things are going to be like in the future. No one knows that.

Every time I've asked a CFO or a president of a company their observations about the future, "We don't know." And what do you tell this to the market? "Well, they ask us so we have to tell them, but no one knows." So there's got to be a different way to skin the cat here.

Anthony Deden:

Do you value microcaps differently from megacaps because they're microcaps? Is evaluation different in your view?

Ian Cassel:

No, I would say the valuation would be different when you're looking at the quality of the business, the robustness of the business.

Anthony Deden:
Exactly.

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Ian Cassel:

The survival of the business, the endurance of the business.

Anthony Deden:

Exactly, exactly, exactly.

Ian Cassel:

We have questions starting to come in. I'll ask one of them right now that we had an attendee ask. What has been your worst mistake, and what did you learn from it?

Anthony Deden:

Well, I will not mention the name of a company. My worst mistake ever was that I found a company in the UK that was unbelievably rich in assets. I felt that if the company were to be taken apart and sold piece by piece, you would get easily, £400 per share. Yet, the company was selling for £60.

It was profitable. It had been around for a very long time. Solid assets. It was a value investor's dream. Well, we did a lot of work to try to understand it. And the more work I did, the more convinced I was that there was a substantial value here that was locked up. And they had what appeared to be a very good owner in the form of foundation, put together by the original founder of the company to promote some good works. They owned 51% of the firm and they appeared to be managed very well. The CEO, he was a chartered accountant. Serious man. Everything seemed to be perfect. I mean, just absolutely perfect.

So we bought a little bit, a little bit more, a little bit more. At some point, we owned nearly 4% of the company, largely illiquid. It would trade maybe 200-400 shares a day, on a busy day. And then one day it became obvious that something was wrong. We saw little errors that appeared to be well rationalized. You could see something was just not right. And we did more digging only to discover a very, very painful thing. Even as extremely undervalue, it was what is normally called in the business a value trap. The problem was with the people in charge. They had all the mask of competence and interest, but they were both incompetent and indifferent.

None of the insiders owned any shares, other than of course the foundation, that was not involved. The governance was on the surface, on paper, very good. But in reality, in practice, it was atrocious. Errors, upon errors, upon errors, upon errors, they were all very

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small, but altogether they showed you a picture of these people being the opposite of an entrepreneur. They were at best, as my colleague Michael Weeks described them, caretakers. And bad ones at that. And the error was mine. Because what happens is you become overwhelmed with what you see there as being an extraordinary set of assets. In fact, these people were living off these assets, indirectly but absolutely. At the same time though, you overlook the fact that something is really wrong. And when you see small bits of pieces that just should raise a flag, you overlook them or you dismiss them, because you are convinced that there's just an extraordinary asset base there.

We found a way to get out completely and never looked back. That was an error that hurt my ego more than a financial one. I've made a lot of errors, but never one that large. There were a lot of lessons to be learned. Mostly that what seems to be there oftentimes isn't. Or what seems to be there oftentimes is managed by people whose objectives and whose competence and whose ability and whose motivation is not the same as yours and mine. And that's never on the balance sheet.

Ian Cassel:

How do you think about that then when you're building a position? Because I believe most of the businesses you own are rather illiquid. Maybe not all of them, but a decent amount of them. And illiquidity is an interesting topic. Because I found that taking positions in these illiquid companies, it reinforces the right mindset as well, because it takes time to build a position, just like it takes time to get to know management and trust them. And I'm curious how you think about illiquidity when it comes to buying a position, and what you think about the initial position sizing itself. It's something that's front and center in my mind all the time. And I own things that's taken me six to nine months, even a year, to acquire a position in something. And obviously, it works out well when it works out well. But we can also be wrong as well, just as the example you gave. I'm curious to hear you talk a little bit about illiquidity, buying, position sizing, that type of thing.

Anthony Deden:

Look, I don't think there's illiquidity in the public markets. There's perhaps less liquidity than if you were to buy Microsoft. I tend to think of an investment portfolio as a collection of assets that has a particular purpose altogether, and each component is a sub-component to the whole. Generally speaking in what we do, we employ oftentimes a vast bulk of family savings. And as a result of that, such a collection of investments must have a lot of purposes, must have a lot of components in it. You just don't buy something

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because it's there and you like it. How does it fit to the whole? What role does it play?

So yes, we have some participations in companies that are less liquid than others. But it's related largely to our time preference for such components. If you want to plant grass in your field... I think Michael Weeks, my colleague, made this in a speech. "If you want to eat every day and you want to have production every day, just plant grass. But if you are interested in eating 10 years from now, you can plant a fruit tree or you can plant vegetables, you can plant other things." So an investment collection is more or less like a garden, where some things grow at different rates for different purposes, they have different values and they have different objectives. And so you take something that you like for example, and say, "How does it fit in the whole?" So right now, for example, I think that we have maybe as much as 10% of our capital in things that we cannot sell tomorrow. Some of it can be sold within a month or two. But we have some things that if you capture 100% of the trading, it will take years to sell.

But I'm not really worried about this. We own a stake in a company where the insiders own 97% of the outstanding shares. We own about a third of what's left, maybe even more. I don't know it precisely. It trades maybe two, three shares a day on a good day, sometimes 10, at €350 per share. No one is selling, no one's promoting it, no one cares. But it's selling at literally two times earnings on an adjusted basis if you exclude the cash. And it pays a very nice dividend. We started buying it at €80, it's paid us over €100 in dividends, maybe, I don't know, over the last 15 years. It is now €350. Why would I want to sell it? What's the point? To do what? It represents maybe 2% of the capital of the firm, maybe 2.5%.

So I think that I see this issue of liquidity the way perhaps a company sees their balance sheet. There are fixed assets, such as buildings, machinery and equipment and trucks and other such things you can't sell tomorrow. And there are current assets, that's inventory, work in progress, cash in the bank, whatever it is, receivables. In my world, an investment is never part of working capital. We have some investments with no exit strategy. We have an indefinite time horizon. We have no interest in ever selling it. Others we have because of some temporal reasons that they're subject to sale at any time. Others we have because we are playing with an idea of figuring out if this is worth taking a larger stake. And I don't think any two things are the same.

And this is why microcaps are a wonderful field because, in my view, the big institutions are not there. Their means and objectives are so different from mine. There are no analysts following them, which is another source of happiness from my part. It's not important that anyone follows it and promotes it. Besides, we own things because of their

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economic value, not their financial one.

So perhaps it's a different way of looking at things. If it were only my own savings, I would probably have as much as, 70%, 80% in what you call illiquid situations with a strong owner. Sometimes they're the second, third, fourth generation. And that strong owner has a culture that has infused into this organization. That is perhaps more important than anything else. And that strong owner has very important principles as to the amount of debt they should have and the purpose for the debt, or when they should expand and when not. Or whether they should put money into improving their products or not, et cetera. They also have sticky customer bases. These are real businesses that are going to be here a long time. Now, whether they become multi-baggers, is not really important to me at all, so long as the return I get is, firstly, economic. Now, eventually such economic return is reflected on the financial side. It always does. Sometimes it takes years, but it always does. But the other way around doesn't work. Sometimes you see financial value, only to wake up one morning and realize that you have an empty sack of potatoes.

Ian Cassel:

When you're looking at the businesses you invest in, do you have a direct relationship with the management teams?

Anthony Deden:

Sometimes. I don't think it's necessary. It's a plus. Sometimes we have very good relationship with some of these people. We know them well. Even a friendship arises often. But sometimes we don't know them at all, we just know who they are and what they do and why they do what they do, and we leave them alone. So it just depends. I don't think it's possible that you can get anything meaningful out of people that you will not get out of a very serious examination of the business. I mean, a serious examination.

Ian Cassel:

In the times that you've been wrong in the portfolio, has it mainly been betting on the wrong people or where a new person or next generation family member steps into the CEO seat and makes some changes that you didn't like? Is it mainly that's the common theme in the losers?

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Anthony Deden:

It really happens. If I had to distill 40 years of observation about these matters, I would tell you that generally, 80% of the success or failure of a company comes from people. And oftentimes you will not know that because they will tell you what they want to hear, because they know what you want to hear and they're going to tell you what you want to hear. You cannot ask them, because they're going to give you an answer that is generally one that would leave you a positive impression. But occasionally something happens within a company. I’ve seen it maybe five, six times in the last 15 years. A change takes place, that you know it's completely antithetical to the culture that you have been familiar with and you understand and you are counting on. Something has changed. The wrong person has come on. They say a few words and you know immediately this is not the same vocabulary that the predecessor used. And you have to think about whether or not you need to stay on.

You need to focus on like-minded persons that you would otherwise hire to run your company, you see. And there are many of those, and particularly in smaller firms, the microcap world, particularly here in Europe. Because I say, "In Europe," because the culture is different. Hardly anybody gives options to anybody. You show me a company that gives options to management or issues shares willy-nilly, and I'm not interested in participating. Generally speaking, this is problem in America where you have no owners, you have renters. I don't know if I answered your question.

Ian Cassel:

What do you think of stock-based compensation?

Anthony Deden:

I mean, you don't have this in the rest of the world. I mean, there are some cases where you have some but is is done differently. We own a stake in a company that every five years will award shares to some of its key executives. The company will actually buy the shares and expensed it completely. The award them on work done in the past, not as an incentive for the future. So when you have made a significant contribution in the past according to the owner of the company that is above and beyond what you've been paid for it, then that owner knows how to compensate you. Or compensate you with shares is fine, so long as it's done properly. Yes?

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Ian Cassel:

Yes.

Anthony Deden:

It is about incentives. All you have to do is look at incentives. And typically speaking, most of these people have no skin in the game.

Ian Cassel:

You talked a bit about deselection. I know when we've spoken in the past, you don't like the idea of idea generation, generating ideas. For you the key is deselection, knowing what you're looking for and waiting until you find it. And if you look at, I think you mentioned this on Grant's interview, there are 70,000 public stocks in the world, and maybe 100 of them you would be interested in. Out of the 100 companies that you would invest in that you don't own today, what are they lacking? Is it just valuation?

Anthony Deden:

I don't think they're lacking anything. Think of it as an art collector. If I told you there are 25 million artists in the world and 100s of millions of paintings, would you be interested in all of them? No. Depending what kind of art you collected, you would focus on that art. So what anybody else made, would be uninteresting to you. And out of the things you're interested, there are certain things that you can purchase at some time at a decent price. And others, you can just put on your list and just wait.

Ian, I don't think there's a science to this thing. I think it's a mistake for people like us who are involved in financial matters to seek to reduce things to formulas. It is not a formulaic business, because it's random. The randomness of human nature, the randomness of business. There were businesses that used to be extraordinary. There's a microcap today called Eastman Kodak. It used to be a largecap.

I remember the days when I was a younger man, there was a company called WordPerfect that owned the market for word processing. I mean 100% of the market. Every law office in the world had WordPerfect software. It was worth billions. And today it's gone. The list of products, great products that never made it or died is much, much longer than the list of products that succeeded. So we need a little bit of humility and say, I think that the idea of having specific rigid formulas in judgment about anything, it's just not suited to the complex world in which we live. You need to be able to weigh things

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much more frequently than measuring them.

Ian Cassel:

You give great weight to a company's endurance and durability. Sometimes those desirable characteristics often found in family-controlled companies that you prefer can come with subpar capital allocation and/or unnatural cash hoarding in the guise of a long-term perspective. And he gave an example, the person asked the question, Karelia Tobacco, which you have owned or may still do, piling up over three quarters of the market cap in cash. How do you deal with such situations?

Anthony Deden:

Mr Karelias would reply that if you don't like what we're doing, go somewhere else. You don't have to be a shareholder here. I know this company very well. We own a stake in it. Indeed, they've got million or so in cash. I'm not sure exactly how much. They have a market cap of $900 million, cash of $700, no debt, and they earn about $80, $90 million a year after tax. So in essence is selling for two and a half times earnings.

So the question is why? An owner sees things differently. Sometimes it may sound reasonable to a minority shareholder. Sometimes not. Sometimes it makes sense, sometimes it doesn't. They have their own reasons. And I think that when you look at a business that has been around for five generations and you come to conclude that they've never made a major mistake, they've never made an error in their business, you must trust their judgment and you are in no position to second-guess them in that sense. In this case, they're not in a hurry. Cash doesn't burn holes in their pockets. They're not interested in maximizing their wealth. They're already extremely wealthy. They are fearful of the world in which we live. They see risks in their own business. They see risks in the world around them. They see risks in the countries in which they operate. They see risks in the supply of goods, a supply of raw materials since this sort of thing. They see an uncertain world much different than the world that was around 10, 20 years ago, say 20 years ago. And they want to protect their family wealth.

And now where do they go? Where would they go? So they have a portfolio of very short-dated debt instruments and other such things. They're familiar with what happens to money in an inflationary time. But I think that if I start questioning their judgment, then I might as well get out. You know what I mean? But I don't think it's easy to see an organization like that with glasses that one wears looking at Wall Street. It's an entirely

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different company. In their judgment, in the long run it actually makes their company stronger. They have facts and information and they have understanding that you and I will never have. And I think you've got to respect that.

Ian Cassel:

I think in those situations you hit the nail on the head to a point where you either trust them or you don't. And if you don't, you sell.

Anthony Deden:

Correct.

Ian Cassel:

How do you view gold in the portfolio. Do you view it as a placeholder for cash until you find a business to purchase? Just curious if you could expand on that.

Anthony Deden:

Well, I view gold in the portfolio the same way you view the cash you have in the bank. I assume everybody has a bank account has cash in it to provide for some emergencies or whatever it is. So everyone, every company, every individual, every family, every nation, or really whatever, should have what was one time called reserves. Not everything must be working. We used to have a time when for wealthy people, they had a portfolio of fixed income instruments, governments or other things to provide a stream of income which they used to live off or recapitalize or invest in other things, et cetera. Reserves is an important component of an investment practice, and in fact, it's extremely important and it's to take care of all of those things you mentioned and above. Now, the point is that, so we own gold. We originally owned gold because it was mispriced. We bought it at $290 an ounce. In those days it was very, very mispriced.

So we still own it. Now we own it for different reasons. Today it's not an investment. Today is part of the company's reserves for opportunism, for protection, et cetera. I've spoken a lot about gold and it's not longer my favorite subject, but I'm going to find something here. Hang on for one second. Let me find something here.

We recently wrote down an owner's manual that's designed to give our shareholders in-depth view of not what we do, but how we do it and why. And there's a whole section on this idea of reserves. And I'm just going to give you out of maybe 400 words or

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thereabouts, I'm going to give you two paragraphs. Is that okay?

Ian Cassel:

Sure.

Anthony Deden:

But it would summarize, it was actually originally, what I'm going to tell you was written by my colleague, Michael Weeks. So I'm going to quote from this piece.

"The reason we own gold as a reserve asset is rooted in something fundamental. What makes gold compelling are the risks we do not take by owning it. No forecasting or guesswork is required. The risks we do not take owning gold could fill volumes. There's no duration risk, credit risk, liquidity risk. The metal is not moved by financial instability nor threatened by national insolvency or chaos in the foreign exchange markets. There are no margin calls and no refinancing risks. There's no risk of technological obsolescence, depletion, depreciation, or decay, nor does it require cheap energy, cheap credit, or cheap trade to remain viable. It does not care about your national energy policy or who you buy your gas from or how many pipelines are running.

You don't have to keep the lights on or even keep it warm. There are no financial accounts to pour over, no balance sheet to blow up, no cash flow to dwindle, no stale inventory and no margin pressures at difficult times. There are no key manpower or supply risks, no competitive risks, no management or to squander his future. It does not depend on the character, skill or enthusiasm of anyone. It does not require the faith or goodwill of anyone. It does not require you to trust anyone except that you must store it and hold it in a safe place. So the absence of unwanted risk is the center of our investment approach. The principle applies to our choice of gold reserves as well as the business participation that we hold. Both parts brought together, seeking to avoid risks that are not worth taking, and by extension, have the freedom to choose risks worth embracing."

I hope I answered your question that was posed to you as succinctly and simply as I could. There's a lot written on gold from different people. Most of the people who write about gold is they want to sell it to you. So they find all kinds of reasons that you should own it. So one needs to have a very dispassionate and very detached view of what it is, why it is what it is, and what role it plays in an investment collection.

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Ian Cassel:

I'm guessing you sell companies if they become overvalued in your eyes. Is that one of the main reasons you would trim or sell a position?

Anthony Deden:

Sometimes it happens, yes. We've just sold a stake in a company that is selling for maybe 60 times trailing earnings. It is not a company that you would know. It used to be a micro cap. Now it's a normal cap, I suppose. I don't know. So yeah, I mean sometimes you sell it, sometimes you trim it. If you really want to hold it longterm, if you like the business and there's an opportunity because somebody has bid it up higher, you can trim it, you can buy it back later on, sometimes do nothing. So it just depends on the situation. I don't think there's a hard rule to that. There's a lot of thought that goes into this question. The other thing is that when you sell something, you always have to ask yourself, okay, so it's easy to sell something. Now what do I with the money? So I think it's worthwhile selling something when you can find something that's more valuable to you, particularly if it's mispriced on the high side.

Ian Cassel:

Mm-hmm. Yeah, I've always believed there's really four reasons why at least we sell. Number one, something goes up too far too fast to a multiple that you're kind of pulling forward the next five or six years worth of returns and you're forced to take it. It falls under good problems to have. The second reason you would sell something would be if you find something better than the worst thing you owned, if you want to look at it that way. And then also just two other reasons that are kind of negative is the business or the people you deem to be untrustworthy or not what you thought or maybe things have changed. And that's kind of the two normal bad reasons you would sell, bad meaning something negative has happened, either with the relationship with the management team and their execution or the business itself, where you see it headed.

Anthony Deden:

I don't disagree with any of these things. I'm not sure there are any specific rules you should employ. But you should always know what you own and why you own it. And the place to look is not the stock market.

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Ian Cassel:

It takes decades to develop this active patience of finally knowing what you're looking for. It doesn't happen in a year or two, it just takes 10 or 20 years. How long did that take for you to evolve into that state?

Anthony Deden:

Yeah, well, the practice started in 1985, so two years later there was a bust in 1987. Then there was a boom, there was a bust, the savings and loan crisis, another boom, another bust, another boom, another bust. At some point you recognize that something is wrong in the system, and what's wrong is the nature of money. Something has changed over the last 25, 30 years, extraordinary change. And you ask yourself, okay, fine. Either I have to play the game that everyone plays, or if I'm going to hang on to whatever savings I've made, I have to find another way. I have to exit the system. And you realize, that the financial system is dishonest. It's full of fraud, it's corrupt, and I mean everything about it is corrupt.

So if you pretend to work within the thinking that somehow you're going to outsmart it, I mean, who are you fooling? I'm talking to myself now, and that's started sometime around 2009. 2009 I came to conclude without any doubt that there needs to be a change in the way I view this thing. And I basically thought, if it were my own money, all these hundreds of millions, what would I do with it? How would I act in a setting like this?

And as a result, you acquire certain principles that would hold true, and you can operate in the financial markets without being part of them, but you have to be an owner. You cannot be a speculator or a renter of securities hoping that something will go up so that you can sell it and buy something else. It becomes a stupid game. It becomes something I don't want to play. I don't want to do it. It's not worthwhile.

Now let me give you something else that I contributed to this factor. Many years ago, I used to be an airplane pilot. Pilots learn by looking at other people's errors. Flying an airplane is subject to enormous number of variables, like things that can go wrong, both with respect to oneself and the aircraft as well as external elements.

I was keen to examine risks. What can go wrong? What is it that can go wrong? I'm talking about risks in the plural, hundreds of them. You look at companies that failed and ask yourself, what were the factors that contributed to the failure? Starting roughly around 2010, I realized that the number of things that could go wrong had grown exponentially. They were many more than I could even manage to enumerate.

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It was at at time that I read something about this family that had this business that had been around for like 10 generations. I started looking at such businesses that have lasted for generations and asked myself, what were the factors that contributed to the enduring legacy of these people? What did they do that was different than others?

So when you start thinking about that, you note that it has nothing to do with the balance sheet of the company or any one metric. It's a way of thinking. It's a culture. So, what do they do that is different from what I do and what can I do within the financial world that would find some way to emulate or to participate or to incorporate into my work? What are those variables, those principles that have allowed them to survive over many generations and wars and inflations and so on and so forth.

It was then that my approached changed.

Today in the US you're facing the risk of capital controls. And I can tell you this, it will happen. I don't know when, but it will happen. It's an unavoidable consequence of the financial situation that is in the United States. Well, how many people think about that and what are they doing today to protect themselves from that five or 10 years from now?

The other thing that mattered to me a lot at the time is that although you do know certain things, you don't really how much something sells for, $10, $100, $1,000, but what is a dollar? What exactly is a dollar? Think about that. And 10 years from now, what is that dollar going to be worth and why? And is what I own really ought to be measured in something that itself has no value? You start thinking about these sort of things and you begin to see the world in a different kind of way.

Now, the problem is that there's no market for these ideas. Don't delude yourself. There are very, very few people who are even remotely interested in these ideas and hence this kind of an investment practice. Frankly, this is what people today ought to be doing, thinking about the next 10 years. That's my view and that's the genesis of such evolution, if you may. It works for us.

Ian Cassel:

And I'm guessing that this distrust of the financial system is why you steer clear of investing directly in the financial industry?

Anthony Deden:

Well, can you actually make sense out of the financial statements of a bank institution? It's

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not a question no longer of hiding liabilities. It's a question of having false assets. Everything is just a piece of paper, paper built upon paper and paper and paper. The financial sector is a minefield, so I'd rather not walk on it.

Ian Cassel:

Is portfolio turnover something that you care about or think about at all when-

Anthony Deden:

No. Naturally it's very low but not by design. It is not something we say our portfolio turnover is 4% or 3% or 5%. I am absolutely sure that if the necessity came to sell everything we had tomorrow morning, we would and not worry about that. I think it's a false metric if you ask me. But on the other hand, I know people who had a portfolio turnover of over 300% a year. I don't think that's an investment practice. I think that's more like going from a blue lights machine in Las Vegas to a red light machine hoping that this will pay off better, forgetting the fact that the insides of the machine are made by the same people.

And the other idea that we avoid is excessive diversification, which makes really no sense at all in the sense of reducing risk. There are some risks you avoid, some risks you embrace. Entrepreneurs do that.

Ian Cassel:

How do you think about portfolio position sizing? And I don't care about what the company is, but outside of gold and cash, why is your largest position the largest position? Is it the business that's the best risk adjusted return to use a financial term or the business/ management you trust the most?

Anthony Deden:

Yeah, I don't think it's a risk adjusted thing. I think if you were to take what we own and rank them in terms of weight, you may think that we like less something that is smaller and more something that is larger. That's not really true. I think that something that is a larger concentration is a combination of a lot of factors. Most important among them is that over a period of years, you have developed not just trust but a sense of absolute conviction. And I use that word specifically about the value that it possesses and its role in the whole.

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It is sort of like, well, let me give you a cooking idea. If you cook a particular meal and there's a certain balance of how much celery you put and how much salt and how much cream, et cetera. If you have too much of this and too little of the other, it doesn't turn out well. So I'm not suggesting that you can make the metaphor that food is like an investment portfolio, but generally, ultimately, if you have a particular aim, it does.

And I'll give you another metaphor. If you were preparing to go on a trip to climb Himalayas and I was preparing a trip to go to sail around the world, we would both be concerned with survival but we will find not the same things valuable. Our survival kit will contain completely different things. Our tools, our knowledge work entirely different. So what you do as an investor is related to exactly what is your destination. So if you have no destination... Another metaphor, if you don't know what to cook, you go into a supermarket and you go around the aisles looking for something that's interesting. But if you know precisely what you want, you go and buy a 100 grams of this and five grams of that and two kilos of the other and go home. And you don't really care what else the supermarket sells. Is it not true?

And that's why I don't think that you can ever compare returns like Ian's fund did X and Tony Deden's did Y. You can't. It is like comparing the earnings of an electrician and a plumber, you can't. They're different objectives, different means, different reasoning. It is not only that the ends matter, but also the means to get to where you want to go. So I'm just giving you two or three metaphors here that you can perhaps employ. I'm not sure they're all applicable, but I think they're kind of useful.

Ian Cassel:

I'm always amazed as a microcap investor that at least one or two times a year, I usually stumble upon a business that I never heard of before. And I imagine that doesn't happen as often for you. I envision you sort of know the 100 companies that you would ever buy and you're just kind of waiting for something to evolve. Or do you find things that are new that all of a sudden evolve into a situation that you would participate in?

Anthony Deden:

Absolutely. The 150 companies just a form of speaking it's not specific.Yes, of course, there is probably a list of five or 10 that I would love to own at some point, maybe under different conditions. There are a few others that we're just sort of playing with here and there, just smelling around.

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You constantly must smell. But yes, you always find things that you've never seen before, you never heard before, but 99 times out of 100 you dismiss them on a very cursory look. Look, we had a talk, we chatted I think in March, I think April, I'm not sure, or maybe it was last year, I'm not sure. And at that time I told you that you are far more likely to find really, really valuable microcaps in Europe than you'll find in North America.

And I'll tell you why. And I think that the problem is in the United States, most companies are in the same business and that's their common stock. That's the business they're in. You will not find that here, not even one, except very rarely. You see a company focused on their products, on their customers, on their people, it's worthwhile digging into it, like you said, using that word. You see a company promoting themselves having five pictures of a CEO on the annual report or spending time with analysts or giving guidance here and there and everywhere, they're in the business of the common stock. That's all they're in. And the guy's there for five, 10 years and he wants to become rich before he leaves.

Now, what will happen to this company, it's employees, its customers, it's suppliers over the next 20 years of no interest to him because he's not an owner. So I don't care how valuable it is, I don't care how much promise it has. I don't care how cheap it is. I'm not interested at all. You see, this is the idea of exclusion. It is very simple actually. And you will find, if you were to look at 100 different ideas in the course of a year on a cursory basis, and you were to focus on two or three and find one that is worth pursuing, you've had a very good year. I mean a very good year, that's been my experience.

Ian Cassel:

Amen. You just described microcap investing. Maybe a final question, anything interesting that you're reading right now?

Anthony Deden:

Well, I don't know, I am reading this book by Edward Feser. It's a philosophical summary of Thomas Aquinas. It has nothing to do with what I do in my day job, but I find it fascinating. I don't have something specific to tell you. I'm spending a lot of time thinking about the changes that are taking place in our world. What you hear as being the BRICS story is substantially and much more, incredibly more important than you think it is. The repercussions of that are so enormous that a person cannot afford not to take notice. On the other hand, we live in a time where if you're not afraid, there's something wrong with you.

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Ian Cassel:

I'm just thinking about how good this conversation was. I'm going to be respectful of your time. I appreciate the hour and a half you've given to us this morning, your evening.

Anthony Deden:

Thank you, Ian.

Ian Cassel:

Yeah, thanks again for doing this. We really appreciate it.

Anthony Deden:

You're a good man. I'm sorry I couldn't come to your August meeting, but maybe some other time if you invite me.

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